EXECUTIVE SUMMARY

In 1999, Indonesia ranked sixteenth among world oil producers, with approximately 2.0 percent of the world's daily production. Indonesia's oil reserves are approximately 9.8 billion barrels. At 1.5 million barrels of oil per day (MMB/D) in 1999, Indonesia's production of crude oil and condensate continued a gradual decline from 1.56 MMB/D in 1998 and 1.58 MMB/D in 1997.

With substantial reserves of natural gas and coal, Indonesia could remain a net energy exporter for a longer period than current forecasts. To do so, the government must implement legislation and policies that will rationalize use of Indonesia's energy resources. Energy policy reform would prolong Indonesia's status as a net oil exporter and enhance efficient use of energy resources.

In line with its International Monetary Fund (IMF) commitments, the government is still pressing forward with plans to hike domestic fuel prices and secure passage of a new draft oil and gas law in the face of earlier failures on both fronts. Initial fuel price increases were implemented in October 2000. The Government's draft oil and gas bill, submitted to Parliament in October 2000, foresees eliminating Pertamina's monopoly over the upstream and downstream sectors and transferring Pertamina's responsibility for administering Production Sharing Contracts (PSC's), renamed "Cooperation Contracts," to a new Implementation Agency.

The Government was also proceeding with the implementation of Law 22/1999 on Regional Autonomy and Law 25/1999 on Fiscal Decentralization, scheduled to enter into force in 2001. While current petroleum contracts would be grandfathered, uncertainty over details of the implementing regulations and the specific policies which would be put into place continued to create uncertainty and diminished the level of new investments in the petroleum sector.

As 2000 drew to a close, the "oil dividend," from the high international crude oil prices kept the budget deficit below the government's projections. In the first nine months of calendar year 2000, oil and gas revenues were estimated to be Rp 72.9 trillion (US $9.1 billion).

In CY 1999 and 2000

- The dollar value of oil and gas exports rose to $9.8 billion in 1999, compared with $7.9 billion in 1998.
- In the first six months of 2000, oil and gas exports reached $7.1 billion.
- Oil and gas imports also rose in 1999 to $3.7 billion, compared with $2.7 billion a year earlier.
- In the first six months of 2000, crude oil and oil products imports totaled $2.2 billion.

In FY 1999/00 and FY 2000

- Export earnings from crude oil and gas rose to $11.2 billion, representing 21.9 percent of total export earnings, from $7.2 billion in

FY 1998/99, or 14.9 percent of export earnings.

- In FY 2000 (April-December) export earnings from oil and gas were estimated to be $8 billion.

- Government oil and gas sector revenues, largely from crude oil sales and the petroleum profits tax, reached Rp 56.3 trillion for 1999/2000 from Rp 41.3 trillion in 1998/99. The share of oil and gas in domestic revenue rose to 27.9 percent, from 26.0 percent of domestic revenues in FY 1998/99.

Crude Oil

- Proven and potential oil reserves: 9.8 billion barrels.

- Average daily production: 1.50 million barrels per day (MMB/D).

Indonesia's major crude oil customers (in rank order) were Japan, Australia, South Korea, China and the United States. Indonesia's overseas markets generally showed a modest increase in sales with the exception of Australia and a particularly sharp decline in sales to Singapore. Except Total Indonesie, the largest production sharing contractors with state oil and gas company Pertamina -- Caltex, YPF/Maxus, BP, Conoco, Vico and ExxonMobil -- lowered their production in 1999. Expenditures by petroleum companies also declined 17 percent in 1999 to $4.0 billion from $4.8 in 1998.

The upward trend in the number of new exploration and appraisal wells peaked in 1998 at 145, then fell to 89 in 1999, significantly below the 100 wells drilled in both 1996 and 1997. Unocal continued its ambitious drilling program in the deepwater, offshore East Kalimantan blocks. The number of new production sharing contracts (PSC's) signed dropped sharply to 4 in 1999, from 22 in 1998 and the record 29 signed in 1997. Three existing contracts were extended.

Indonesian crude production profited from record world oil prices, averaging $30.18/barrel for Sumatran Light Crude (SLC) for the first half of 2000. As a result of OPEC decisions to increase oil production, Indonesia received two quota increases, of 37,000 B/D in July 2000 and a further 41,600 B/D in October.

Natural Gas

- Reserves: 158.3 trillion standard cubic feet (TSCF).

- Gross Production: 3,068 billion cubic feet (BCF).

- Export revenue from LNG and LPG: $4.8 billion in calendar year 1999.

Indonesia has natural gas reserves of over 158.3 trillion standard cubic feet (TSCF) – 92.5 TSCF proven and 65.8 TSCF potential. Under production sharing contracts (PSCs) with Pertamina, Indonesia's largest producers are ExxonMobil, Total, Vico, Arco and Unocal.

In June 1999, the U.S. Trade and Development Agency (TDA) approved a $302,400 grant to provide assistance to the GOI to develop a Natural Gas Development and Procurement Plan. The objectives of the Plan are to identify investment opportunities for using domestic non-exportable natural gas and assist in the development of natural gas distribution and transmission infrastructure in West Java and South Sumatra. Work on this project is ongoing.

Indonesia moved forward on two natural gas agreements with Singapore. The West Natuna pipeline project supports a supply contract with the Singaporean consortium SembGas. Pertamina and Singapore Power Gas signed a Memorandum of Understanding for delivery of natural gas from fields in South Sumatra.

In a further development, Pertamina and Malaysian national oil company Petronas signed an agreement in October 2000 for the supply of natural gas from the West Natuna Sea as part of the ASEAN gas grid. Pertamina will supply a total of 1.5 TCF of natural gas to Petronas for 20 years from the B block operated by Conoco. First gas deliveries are expected to commence in July 2002 at 100 million cubic feet per day (MMSCFD), reaching 250 MMSCFD in 2004. Pertamina and its PSC partners plan to invest $3.5 billion to build production and underwater pipeline facilities. Revenues from the gas sales are projected to reach $6.2 billion over the life of the contract.

The largest percentage of Indonesia's natural gas production is processed into LNG and LPG, followed by use by the electricity and petrochemical sectors. LNG production at Arun and Badak (Bontang) for 1999, at 29.8 million metric tons (MMT), continued the upward trend from 27.2 million MMT in 1998 and 27.1 MMT in 1997. Japan, South Korea and Taiwan were the key markets for LNG. LPG production dropped to 2.3 MMT in 1999, with exports also falling for a second year to 1.44 MMT to the four top customers -- Japan, Hong Kong, Taiwan and Australia.

The government continued actively to promote BP's giant Tangguh gas field, under development in Papua, with a particular focus on potential markets in China and India.

Refining and Imports

- Installed capacity: slightly over 1.0 million B/D at eight state-run refineries.

- Capacity utilization: 95 percent.

Indonesia's nine refineries, with installed capacity to process over 1.0 million B/D of crude oil, continued to experience difficulties in 2000.

In 1999, Indonesian crude oil imports rose to 84.7 million barrels, largely from Saudi Arabia, Iran and Malaysia, with imports valued at $1.5 billion for the year. Fuel product imports rose significantly to 79.9 million barrels valued at $1.7 billion for the year due to increased domestic demand and limited refinery capacity.

Domestic fuel consumption increased to 50.8 million kiloliters in 1999, returning to pre-crisis levels. It is unclear, however, how accurately this reflects a resurgence in consumer demand, as a significant amount of refined fuel was smuggled out of the country to profit from a large differential between the heavily government–subsidized domestic price and prices in neighboring countries. Pertamina experienced difficulty coping with the increase, leading to spot shortages of diesel fuel, gasoline, and kerosene in parts of the country in mid-2000. As a consequence, Pertamina sharply increased imports of refined products, reaching agreements for additional monthly purchases from Kuwait and agreements to refine its crude and crude purchases at refineries in Singapore for re-import to Indonesia. The Indonesian Government estimated that its expenditures on fuel subsidies would total Rp 43.2 trillion (approximately $5.3 billion) for the April-December 2000 fiscal year.

Petrochemicals

The petrochemical industry remained stagnant in 2000, with no new plants completed. In the wake of the financial and economic crisis that erupted in mid-1997, projects under construction remained in limbo.

Chronology of Recent Events

Month/Year	Event
March 1998	President Soeharto selected for seventh term.
May 1998	President Soeharto resigned; Vice President B.J. Habibie became President.
June 1999	Parliamentary (DPR) elections.
October 1999	New Parliament installed. People's Consultative Assembly (MPR) selected Abdurrahman Wahid as President and Megawati Soekarnoputri as Vice President

Decentralization

On January 1, 2001, Law 22 of 1999 on Regional Autonomy and Law 25 of 1999 on Fiscal Decentralization will enter into effect. Law 25/1999 contains formulas for sharing revenue between the central government and various regional authorities. A persistent problem has been local representatives' misunderstanding of the operation of oil and gas revenues, which may lead regional administrations and residents to overestimate future transfers.

Shares of state revenue before and after implementation of Law No. 25/1999

Type of revenue	Central Gov.	Province	Regencies
Before (%):			
- Oil	100	-	-
- Natural gas	100	-	-
- Mining land rent	20	16	64
- Mining royalties	20	16	64
- Land/building tax	10	16.2	64.8
- Duties on land/ building acquisition	20	16	64
After (%):			
- Oil	85	3	12
- Natural gas	70	6	24
- Mining land rent	20	16	64
- Mining royalties	20	16	64
- Land/building tax	-	16.2	64.8 (+)
- Duties on land/ building acquisition	-	16	64 (+)

Major Milestones for Oil in Indonesia

Year	Event
1890	Telaga Said production field sold to a company that later merged to form Royal Dutch Shell. First production was in 1892.
1912	Standard Oil of New Jersey through its Dutch subsidiary received permission to explore for oil in South Sumatra.
1921	The Talang Akar field is discovered, which proved to be the biggest find before WWII.
1942	Japanese take over most oil fields during WWII and slow production.
1945	Indonesia declares independence from The Netherlands.
1962	Pan American Oil Company signed the first contract of work with Pertamina.
1962	Indonesia joins OPEC.
1968	National oil companies Permina and Pertamin merged to form Pertamina.
1978	First LNG plant enters production.